

Market Insights

DECEMBER 2020 UPDATE

A LOOK BACK AT THE PRIOR MONTH

ECONOMY: RECOVERY STARTS TO LOSE SOME MOMENTUM

Economic data released in November suggested the US economic recovery remained on track.

- Conference Board's Leading Economic Index (LEI).** The Conference Board's Leading Economic Index (LEI) rose 0.7% month over month in October. This follows a similar increase in September after April's 1.4% increase. The Institute for Supply Management (ISM) New Orders Index, average weekly initial claims for unemployment insurance (inverted), and the Leading Credit Index (inverted) led the way among positive contributors. Manufacturers' new orders for nondefense capital goods, excluding aircraft—one proxy for business investment—declined in October. While this number still signals continued economic growth, it reinforces that the pace of the recovery is slowing.
- Payrolls and Labor.** The US economy added 245,000 jobs in November according to the US Bureau of Labor Statistics, missing Bloomberg survey estimates of 460,000, while the unemployment rate dipped 0.2% to 6.7%. The labor market has been grappling with the troubling rise in COVID-19 cases and related restrictions. Weekly jobless claims have been increasingly volatile as well, reflecting the uncertainty businesses face in making hiring decisions.
- Inflation.** Inflationary pressure rose during November, as the core Consumer Price Index rose +0.2% month-over-month. For 2020, we've seen the core Consumer Price Index indicate an aggregate +1.5% move. This indicates a move towards the direction of the Federal Reserve's inflation target of 2%, but we are still below their desired levels with one month left to go for 2020. Producer prices which are measured by the core Producer Price Index also saw an increase bringing the year-over-year increase to +1.4%.
- US Consumer.** The Conference Board's Consumer Confidence Index fell in November after slipping in October. The Present Situations and Expectations indexes both fell slightly, suggesting fading economic momentum. Elsewhere, October's increase in US retail sales was the slowest since the spring, reflecting COVID-19 impact and fading stimulus.
- US Manufacturing.** US Manufacturing took a slight breather during the month of November, with the ISM Manufacturing Purchasing Managers' Index ("PMI") falling by 3% to 57.5. While this is a slight retracement from 2020's high in October of 59.3, this is still a strong number especially given an uptick in COVID-19 cases. This represents a continued strength in the PMI that has not been seen since late 2018, indicating that US Manufacturing remains relatively strong given its insulation from the impacts of COVID-19 relative to other sectors such as dining or other services.
- US Business.** Fed surveys in October reflected decelerating economic momentum and continued bifurcation between goods and services. The National Federation of Independent Business (NFIB) Small Business Optimism index remained unchanged in October from September. The 104 reading is relatively high, though the NFIB noted looming uncertainty, likely reflecting election jitters and rising COVID-19 cases.
- Policy.** While the bulk of election uncertainty has passed, a runoff election in Georgia means the composition of Congress remains undecided, dampening the prospects for a near-term fiscal stimulus bill. However, recent headlines suggest a slimmed-down bill in the range of \$900 billion could be reached by year-end. There have been no changes to the Fed's policy framework, but the threat to the economy of rising COVID-19 cases may prompt the Fed to extend the maturity schedule or pace of its Treasury purchases.

EQUITIES

One of the Best Novembers For The S&P 500

November’s 10.9% gain for the S&P 500 was the best November performance for the index since 1928 (when it was the S&P 90). The Dow Jones Industrial Average Index’s 11.9% gain was its best month since 1987—and the best of all months, not just November. Vaccine progress and post-election policy clarity buoyed investor sentiment, offsetting surging COVID-19 cases in the United States and many parts of the world. November’s rally brought the S&P 500’s return for the first 11 months of 2020 to 14%; the index is poised to deliver its first positive annual return after being down 30% or more at any point during the year.

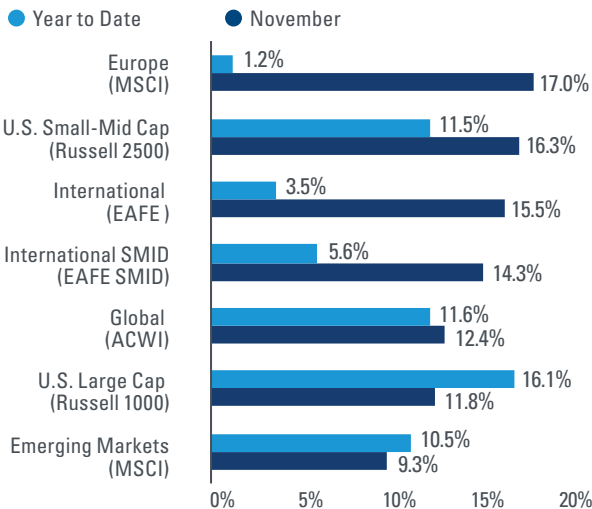
Style/Capitalization

Small cap stocks not only outperformed large caps for the third straight month in November, but the small cap Russell 2000 Index posted its best single-month return in its history at 18.4%. Small caps, which are generally helped more by improving prospects for reopening the economy in 2021, beat large caps across all sectors, but saw particular strength in the consumer discretionary, healthcare, and technology sectors. Mid cap stocks also outpaced large caps for the month, benefiting from relative strength in communication services and technology. The value style outperformed growth for the third straight month, with particular strength in the communication services and technology sectors. Like small caps, value stocks generally benefit more from reopening the economy.

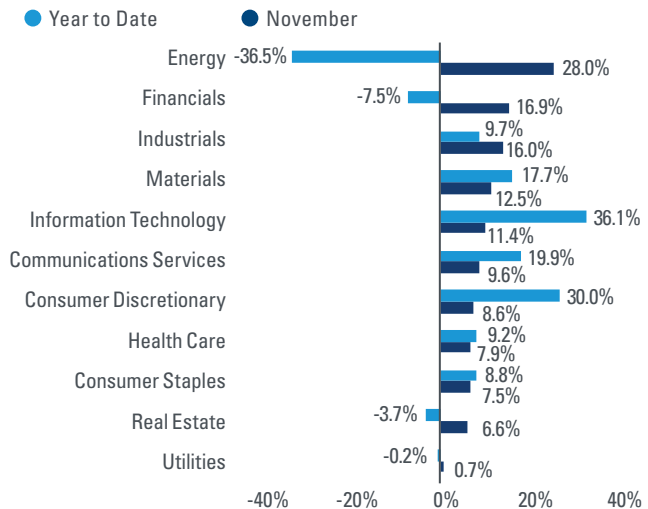
Global Equities

Developed international stocks, represented by the MSCI EAFE Index, beat both the MSCI EM Index and the S&P 500 in November, the first time that has happened since September 2019. The developed international benchmark got a boost from strong gains in France, Japan, and the United Kingdom. The emerging markets index, which lagged both the US and developed international markets during the month, was weighed down by a modest gain for China, which offset strength in Brazil and South Korea. Country market data was sourced from MSCI country indexes.

GLOBAL INDEX PERFORMANCE (Sorted by Monthly Return)



S&P 500 SECTOR PERFORMANCE (Sorted by Monthly Return)



Source: FactSet 11/30/20

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

FIXED INCOME

Mixed Performance

In early November following the US elections, the 10-year Treasury yield rallied to nearly 1%. But rising COVID-19 cases and fading stimulus hopes seemed to weigh on long-term rates later in the month. The 10-year Treasury yield finished with a modest month-to-month decline, ending November at 0.84%. The Treasury yield curve flattened slightly in November, as long-term rates fell more than short-term rates.

The investment-grade bond market delivered a solid, positive return of nearly 1% for the month, led by strength in corporates, as shown in the Fixed Income Performance Table. Treasuries and MBS also produced positive monthly returns, but both bond sectors lagged the Bloomberg Barclays US Aggregate Bond Index's 0.98% gain. Investors favored lower-quality bonds during November, as emerging markets bonds, high-yield corporates, and bank loans delivered the strongest returns in fixed income. Higher-quality municipal bonds trailed higher-quality taxable bonds, while high-yield municipals rose 2.4%, handily surpassing the returns of high-quality municipals.

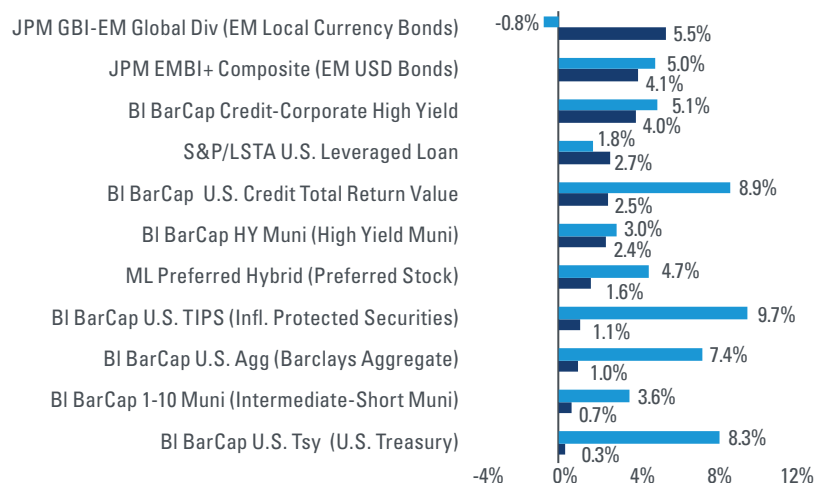
COMMODITIES

Solid Gains Overall

Commodities gained 3.5% in November as measured by the Bloomberg Commodities Index, as COVID-19 vaccine optimism encouraged market participants to embrace risk and the US dollar weakened. Crude oil prices gained 25% for the month on anticipation of a demand pickup from an economic reopening, despite the possibility that the Biden administration may relax sanctions on Iran. Natural gas prices followed their historical seasonal pattern and fell. Copper's double-digit gain convincingly beat gold, which fell during the month, in a nod to global cyclicality. Most major soft commodities rose on strong Chinese demand, a weaker dollar, and technical buyers following strong recent price momentum.

FIXED INCOME PERFORMANCE (Sorted by Monthly Return)

● Year to Date ● November



Source: Bloomberg, FactSet 11/30/20

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

US Treasury Yields

Security	10/31/20	11/30/20	Change in Yield
3 Month	0.09	0.08	-0.01
2 Year	0.14	0.16	0.02
5 Year	0.38	0.36	-0.02
10 Year	0.88	0.84	-0.04
30 Year	1.65	1.58	-0.07

AAA Municipal Yields

Security	10/31/20	11/30/20	Change in Yield
2 Year	0.33	0.27	-0.06
5 Year	0.63	0.53	-0.10
10 Year	1.25	1.11	-0.14
20 Year	1.75	1.54	-0.21
30 Year	1.87	1.65	-0.22

IMPORTANT DISCLOSURE INFORMATION

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